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## Tobacco phaseout efforts at risk

Ky. bill would divert diversification funds

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By **Marcus Green**The Courier-Journal

A bill passed by the Kentucky House last week to help farmers cope with the loss of money from a 1999 tobacco settlement also would strip millions of dollars from programs to help growers find alternatives to tobacco.

House members voted 92-0 Friday to make up a \$114 million shortfall in so-called Phase II payments with \$27 million earmarked for agricultural diversification projects across the state. A bond issue would cover the remaining \$87 million and be paid off with settlement money the state receives.

The bipartisan bill does not affect dollars set aside for counties based on their tobacco dependence and administered by local farmers' councils. Individual growers can apply for those funds to make farm improvements.

But House Bill 132 would reduce a pool of money that has been used to augment county projects and finance regional and statewide efforts, from animal identification programs to a Hopkinsville plant that converts corn into ethanol.

The measure calls for the immediate use of \$16 million of these state funds -- nearly all of the reserve -- to cover the Phase II loss. Another \$11 million is coming in April as part of a payment from cigarette companies.

"To slash those funds as drastically as this bill does would be very detrimental, I believe, in the future of continuing to make this transition" away from tobacco, said Keith Rogers, executive director of the Governor's Office of Agricultural Policy.

Half of the money Kentucky receives from tobacco companies under the Master Settlement Agreement of

### QUICK TAKE

#### Last we knew

The Kentucky House voted 92-0 Friday to make up a \$114 million shortfall in Phase II payments to farmers from another source of tobacco-settlement money.

### The latest

The bill also would strip away millions of dollars from programs to help farmers find alternatives to tobacco. The head of the governor's office of agricultural policy said that approach would hurt Kentucky's effort to move away from tobacco.

### Why it's news

State farmers have used tobacco-settlement money to seek out profitable tobacco alternatives in recent years.



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1998 is dedicated for agricultural diversification efforts. The state has gotten about \$54 million in Phase I payments annually in recent years.

Of that amount, state law requires that 35 percent -- about \$19 million a year -- be set aside for county projects and individual farmers making on-farm improvements. The rest -- about \$35 million -- goes to state-level projects operated by regional cooperatives, farmers' associations and even universities.

In recent years, the General Assembly has earmarked more than half of the state's share for water and sewer bonds, soil and water programs and other items, according to the governor's office.

That would leave just under \$14 million for the Kentucky Agricultural Development Board to dole out for other state projects. The House bill would take \$11 million from that pool of money.

That scenario concerns Rogers because it would leave the board with one-fifth of the \$15 million it had been investing annually in state projects.

The board's ability to fund projects also would be hindered because the bill uses the state money to pay debt service on the bonds issued to cover the Phase II shortfall -- an estimated \$9.2 million a year for the next 20 years starting in the 2006 fiscal year.

The issue became a hot topic in the legislature after a North Carolina judge ruled in December that tobacco companies were not required to make \$424 million in Phase II payments to 14 states, including \$124 million to Kentucky farmers and quota holders. The North Carolina Supreme Court will hear the case on appeal, but it could take months for a ruling.

Rep. Lonnie Napier, a Lancaster Republican and a co-sponsor of the bill, said farmers in his area support taking Phase I money for state funds to cover the shortfall.

"It was the No. 1 issue everywhere we went," he said. "The budget fell second."

The bill goes to the Senate.

Sen. Joey Pendleton, D-Hopkinsville, said he favors keeping the state funds intact and using revenue from a possible cigarette tax increase to cover the Phase II loss -- a position endorsed by Kentucky Farm Bureau President Sam Moore last month.

Pendleton said the state funds have had a "tremendous impact" and pointed to the Hopkinsville ethanol plant and the Kentucky Beef Network as two examples of projects that have benefited farmers across the state.

"Every county has benefited from some sort of Phase I money in some sort of way," he said.

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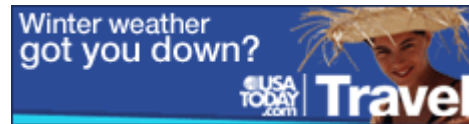
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Rogers said the agriculture board is reviewing projects that have requested nearly \$12 million in state funds. If HB 132 were to pass as it is written, he said, "they obviously would not be funded because we would not have the money."

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